

requisitioned by various production units in the plant. Since prices of material are expected to fluctuate at different rates, this plant-wide grouping does not constitute a homogeneous grouping of material. Contractor D's practice does not comply with provisions of 9904.407-50(b)(2) of this Cost Accounting Standard. However, if he would maintain several purchased-items inventory accounts, each representing a homogeneous grouping of material, and maintain a material-price variance account for each of these homogeneous groupings of material, Contractor D's practice would comply with 9904.407-50(b)(2) of this Cost Accounting Standard.

(e)(1) Contractor E recognizes material-price variances at the time purchases of material are entered into the books of account and allocates variances at the end of each month. During the month of May, a homogeneous grouping of material has accumulated the following data:

	Material cost at standard	Material price variance
Inventory, May 1	\$150,000	\$20,000
Additions in May	1,850,000	120,000
Total	2,000,000	140,000
Requisitions:		
Production Unit 1	900,000	.....
Production Unit 2	450,000	.....
Production Unit 3	300,000	.....
Production Unit 4	150,000	.....
Inventory, May 31	200,000	.....

(2) Contractor E establishes a material-price variance rate of 7% (\$140,000 ÷ \$2,000,000) and allocates as follows:

	Material cost at standard	Material price variance rate (%)	Material price variance allocation
Production Unit 1	\$900,000	7	\$63,000
Production Unit 2	450,000	7	31,500
Production Unit 3	300,000	7	21,000
Production Unit 4	150,000	7	10,500
Ending inventory of homogeneous grouping of material	200,000	7	14,000
Total	2,000,000	.....	140,000

Contractor E's practice complies with provisions of 9904.407-50(b)(3)(ii) of this Cost Accounting Standard.

(f)(1) Contractor F makes year-end adjustments for variances attributable

to covered contracts. During the year just ended, a covered contract was processed in four production units, each with homogeneous outputs. Data with respect to output and to labor of each of the four production units are as follows:

Production unit	Total units of output	Total units used by the covered contract	Total labor costs at standard	Total labor-cost variance
1	100,000	10,000	\$400,000	\$20,000
2	30,000	6,000	900,000	30,000
3	20,000	5,000	600,000	10,000
4	10,000	4,000	500,000	20,000

(2) Since the outputs of each production unit are homogeneous, Contractor F uses the units of output as the basis of making memorandum worksheet adjustments concerning applicable variances, and establishes the following figures:

	Labor-cost variance per unit of unit	Units used by the covered contract	Labor-cost variance attributable to the covered contract
Production Unit 1	\$0.20	10,000	\$2,000
Production Unit 2	1.00	6,000	6,000
Production Unit 3 .....	.50	5,000	2,500
Production Unit 4	2.00	4,000	8,000
Total labor-cost variance attributable to the covered contract	.....	.....	18,500

(3) Contractor F makes a year-end adjustment of \$18,500 as the labor-cost variances attributable to the covered contract. Contractor F's practice complies with provisions of 9904.407-50(e) of this Cost Accounting Standard.

[57 FR 14153, Apr. 17, 1992; 57 FR 34167, Aug. 3, 1992]

9904.407-61 Interpretation. [Reserved]

9904.407-62 Exemption.

None for this Standard.

9904.407-63 Effective date.

This Standard is effective as of April 17, 1992. Contractors with prior CAS-covered contracts with full coverage shall continue this Standard's applicability upon receipt of a contract to

which this Standard is applicable. For contractors with no previous contracts subject to this Standard, this Standard shall be applied beginning with the contractor's next full fiscal year beginning after the receipt of a contract to which this Standard is applicable.

9904.408 Accounting for costs of compensated personal absence.

9904.408-10 [Reserved]

9904.408-20 Purpose.

The purpose of this Standard is to improve, and provide uniformity in, the measurement of costs of vacation, sick leave, holiday, and other compensated personal absence for a cost accounting period, and thereby increase the probability that the measured costs are allocated to the proper cost objectives.

9904.408-30 Definitions.

(a) The following are definitions of terms which are prominent in this Standard. Other terms defined elsewhere in this part 99 shall have the meanings ascribed to them in those definitions unless paragraph (b) of this subsection, requires otherwise.

(1) *Compensated personal absence* means any absence from work for reasons such as illness, vacation, holidays, jury duty or military training, or personal activities, for which an employer pays compensation directly to an employee in accordance with a plan or custom of the employer.

(2) *Entitlement* means an employee's right, whether conditional or unconditional, to receive a determinable amount of compensated personal absence, or pay in lieu thereof.

(b) The following modifications of terms defined elsewhere in this Chapter 99 are applicable to this Standard: None.

9904.408-40 Fundamental requirement.

(a) The costs of compensated personal absence shall be assigned to the cost accounting period or periods in which the entitlement was earned.

(b) The costs of compensated personal absence for an entire cost accounting period shall be allocated pro-

rata on an annual basis among the final cost objectives of that period.

9904.408-50 Techniques for application.

(a) *Determinations.* Each plan or custom for compensated personal absence shall be considered separately in determining when entitlement is earned. If a plan or custom is changed or a new plan or custom is adopted, then a new determination shall be made beginning with the first cost accounting period to which such new or changed plan or custom applies.

(b) *Measurement of entitlement.* (1) For purposes of compliance with 9904.408-40(a), compensated personal absence is earned at the same time and in the same amount as the employer becomes liable to compensate the employee for such absence if the employer terminates the employee's employment for lack of work or other reasons not involving disciplinary action, in accordance with a plan or custom of the employer. Where a new employee must complete a probationary period before the employer becomes liable, the employer may nonetheless treat such service as creating entitlement in any computations required by this Standard, provided that he does so consistently.

(2) Where a plan or custom provides for entitlement to be determined as of the first calendar day or the first business day of a cost accounting period based on service in the preceding cost accounting period, the entitlement shall be considered to have been earned, and the employer's liability to have arisen, as of the close of the preceding cost accounting period.

(3) In the absence of a determinable liability, in accordance with paragraph (b)(1) of this subsection, compensated personal absence will be considered to be earned only in the cost accounting period in which it is paid.

(c) *Determination of employer's liability.* In computing the cost of compensated personal absence, the computation shall give effect to the employer's liability in accordance with the following paragraphs:

(1) The estimated liability shall include all earned entitlement to compensated personal absence which exists